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OFFICE OF CURRENT INTELLIGENCE

MEMO NO.: 1001/66

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REQUESTED OR ORIGINATED BY: ~~Self-initiated as a result of German reaction to increasing US interest in Germany.~~

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OFFICE OF CURRENT INTELLIGENCE

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INTELLIGENCE MEMORANDUM

FRICTION POINTS IN GERMAN-AMERICAN RELATIONS

DIRECTORATE OF INTELLIGENCE

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No. 1581/66

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
21 June 1966

INTELLIGENCE MEMORANDUM*

Friction Points in German-American Relations

Introduction

1. Government officials in Bonn, and especially the West German press, are increasingly critical of what they view as the unrelenting financial demands of the US on West Germany. They are particularly critical--and worried--over suggestions of a linkage between German compliance with US expectations and the continued maintenance of US forces in Germany. Ambassador McGhee has warned that if allowed to grow unchecked, such feelings could undermine the Erhard government's firm position in the current NATO crisis and engender serious doubts regarding the US commitment to NATO.

*Prepared by the Office of Current Intelligence

Offset--Troop Reduction

2. The major source of friction in US-German relations at present is the military offset agreement under which Bonn has agreed to offset the foreign exchange costs of maintaining 225,000 US troops in Germany by purchasing US military equipment.** Under previous agreements, Bonn annually placed military purchase orders in the US for approximately \$725 million during the years 1961-64, fully meeting its commitments. The current agreement calls for German purchases of \$1.35 billion within a two-year period ending 30 June 1967. In 1965, however, new orders amounted to only \$361 million, and at present, orders continue to lag far behind anticipated levels.

3. German officials give a variety of reasons for this drastic shortfall. They cite budgetary problems, the lack of trained personnel in the armed forces, a shortage of depots to store the growing surplus of military equipment, and pressure from German industry for additional military contracts. In addition, German military planners are reluctant to make basic decisions concerning the procurement of modern weaponry pending full evaluation of a basic requirement study.

4. Chancellor Erhard and Defense Minister von Hassel, however, have both repeatedly given assurances that the basic obligation will be met by the mid-1967 deadline. To compensate for the dearth of orders this year, Bonn has offered to make a special advance deposit of \$250 million to the offset account. Washington, however, has tended to regard this offer as inadequate, since it would not markedly alleviate the US current balance of payments problems and leaves too large a gap--approximately \$700 million--to be filled by mid-1967. There is also some difference of opinion as to whether the Germans should be allowed to include certain nonmilitary items, such as equipment for space research, stockpile materials, or foreign aid foodstuffs and raw

**Germany has made a similar commitment to Britain though on a much smaller scale; it has made none to France, which has never sought foreign exchange compensation for its forces.

materials. The traditional view has been that the offset purchases should clearly supplement any purchases made by the Germans in the course of normal commercial transactions.

5. The current public uproar over the offset problem dates from Defense Minister von Hassel's mid-May visit to Washington for a periodic review of the question with Defense Secretary McNamara. Shortly after von Hassel's return, it was widely reported in the German press that during the talks US officials had established a link between American troop levels in Germany and Bonn's honoring of its offset commitment.

6. Even newspapers normally favorably disposed to the US reacted with charges of "blackmail" and "extortion" and warned that such tactics threatened "immeasurable damage" to US-German relations. Some argued that the US failed to appreciate the genuine problems West Germany faces in trying to meet US and UK demands. Other newspapers argued that since the basic arming of the Bundeswehr had been accomplished, Bonn could no longer maintain the same high level of purchases. Although West German leaders accept the fact that they must continue to help the US with its balance of payments difficulties, they insist it is foolish for Bonn to purchase large quantities of weapons which cannot be absorbed by the Bundeswehr.

7. Some segments of the press have emphasized the negative impact of the troop withdrawal threat on Bonn's efforts in the present NATO crisis. According to the respected Frankfurter Allgemeine, these reports give aid and encouragement to domestic opponents of Bonn's firm line. The influential Hamburg daily Die Welt, referring to the rumored US troop withdrawals, asserted that "De Gaulle is well on the way to getting results from his anti-NATO policy where he has least expected it--in the US."

8. Ambassador McGhee, who has frequently advised against any linkage of the offset to a troop withdrawal either directly or by implication has commented that the US has been working at cross purposes in this situation. He asserted that it is

inconsistent for the US to talk about reorganizing and strengthening NATO in the face of De Gaulle's challenge while at the same time permitting authoritative "leaks" about troop withdrawals. He argued that when the US suggests, however indirectly, that its forces will be withdrawn in proportion to the offset shortfall, it undermines the basic American position that these troops are in Germany to provide for US security. It also lends credibility to De Gaulle's underlying assumption that the Soviet threat has diminished.

9. The ambassador recommended that the US avoid pressing the Germans on the offset for the time being, at least until the most urgent NATO problems have been resolved. He strongly recommended an "embargo" on official public or private discussions of any possible change in troop levels to avoid the disruptive leaks such as those last spring which foreshadowed the temporary 15,000-man drawdown of US forces for Vietnam and the recent London Times report on reorganization plans for the 1970s. The latter described an alleged long-range plan of the Pentagon calling for the progressive reduction of US forces in Europe to mere token strength during the next decade.

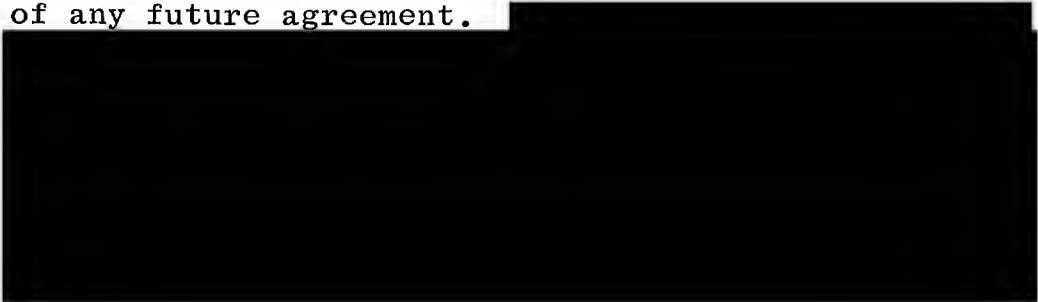
10. An "embargo" of course would not offer fool-proof assurance against future misunderstandings. Given German sensitivities and journalistic relish for this topic, however, the need to avoid irresponsible speculation regarding troop levels is evident. Bonn has also been told that it will be given advance notice of any future force changes. German officials were especially resentful over the failure of the US to provide advance information on the 15,000-man reduction, stressing that the timing and handling were actually more objectionable than the temporary loss of the troops themselves.

11. In an effort to calm German fears, Secretaries Rusk and McNamara have in the past few days publicly denied any US intention to cut US forces in Germany. McNamara said, "We don't anticipate withdrawing a major unit...we haven't withdrawn even a single battalion." But, he asserted, "When we conclude an agreement we expect that it will be fulfilled." He noted that the recent withdrawal of

15,000 "support personnel" is being compensated for by the arrival in Germany of about 3,000 men a month.

12. Secretary Rusk told Chancellor Erhard in Bonn on 9 June that the US regarded it as its "task" and its "duty" to maintain its armed strength in Europe and that this could not be directly related to offset payments. Rusk told West German President Luebke that he realized both countries have balance of payments problems, and suggested that we must together seek a "longer range solution" to this problem. This may have been a reference to the NATO Military Payments Union (NMPU) which the US plans to propose as a substitute for bilateral arrangements such as the offset agreement. As presently conceived, the NMPU would act as a multilateral foreign exchange clearing house to compensate the US and UK for their foreign exchange losses incurred by maintaining troops in Germany. Ambassador McGhee, however, doubts that Bonn would respond favorably to this proposal since its provision for a 100-percent offset obligation to the UK--in place of the current partial commitment--simply means an additional financial burden.

13. Although willing to fulfill the terms of the present agreement, German officials as well as the press have expressed doubts that the previous level of purchases of US equipment can be indefinitely maintained. Bonn's official press spokesman stated on 13 June that the offset agreement would not automatically be renewed upon expiration and that an effort would be made to reduce the amount of any future agreement.



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Development Aid--Defense Spending

14. Although the offset and troop level questions have been getting the headlines lately, there are a number of other issues on which Bonn and Washington tend to differ from time to time. The US, for example, periodically reminds Bonn that it could do more in the field of development assistance. This year's budget provides for doubling the funds available for development loans--some \$300 million--

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[REDACTED] Basically, however, West Germany's aid program is again on the upswing after a sharp drop in new commitments last year. On the whole, Bonn is doing a fairly impressive job, ranking after the US and UK in the size of its aid program.

15. Similarly the defense budget, which was temporarily reduced this year, apparently will be increased in 1967 by approximately \$500 million. This will bring Bonn's defense spending to some \$4.9 billion. In terms of the share of the budget or gross national product allocated to defense, West Germany will still rank well behind the US, UK, and France.

Nuclear Sharing

16. Many German leaders feel the US let them down when in the fall of 1964 it withdrew its support of the proposed Multilateral Nuclear Force (MLF). Although they now welcome current efforts via the McNamara Committee to ensure Bonn a role in NATO nuclear planning and decision-making, Foreign Minister Schroeder and von Hassel continue to favor eventual creation of a "hardware system" in which Germany would share ownership and control of the weapons themselves.

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Vietnam

17. For the past several months there have been persistent reports in the West German press that Washington is seeking a German military contribution in Vietnam. German political leaders, the press, and public opinion are strenuously opposed to providing military forces for duty in Vietnam. The US has denied that it has made such a request and has stated that it is up to each nation to decide the contribution it wishes to make. The Germans are providing some aid to South Vietnam and thus far have contributed about \$25 million in humanitarian and technical assistance, including a hospital ship which is expected to arrive in August. The US hopes that Bonn will be able to do even more.

China Steel Deal

18. Still another source of contention is Bonn's approval in March of a \$73-million credit guarantee to the West German firms which are participating in building a \$150-million steel mill complex in Communist China. Although the US has expressed its displeasure over the deal, German leaders believe they are on sound legal and political ground in developing economic ties with China and are apparently determined to proceed. The Germans justify their participation on grounds that the project does not add to China's basic steel-making capacity, and the equipment being provided will be used for processing steel sheets for use in tin cans, auto bodies, etc.

19. They also point out that the credit terms are consistent with standing Allied prohibitions against long-term loans. Finally, the Germans argue that, should they withdraw, other Western firms would quickly move in on the deal.

20. Despite the upswing in German-Chinese commercial contacts, Erhard has refrained from an exchange of official trade missions with Peking, as once had been planned in Bonn. This is largely out of deference to the sensitivities of the US and Chancellor Erhard's own cordial and close relations with President Johnson, which he prizes very highly.

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Debt Prepayment

21. Bonn is unenthusiastic about a recent US suggestion that it step up prepayment of debts remaining from the Marshall Plan and related aid programs. The Germans have indicated that it will be difficult for them to prepay the remaining \$215 million at this time, and they have reminded US officials that West Germany has obligations under an earlier agreement covering the prepayment of \$587 million which would not be fully met until 1969. The Germans have also pointed to their own balance of payments difficulties and budgetary problems, which they maintain would be aggravated by an additional prepayment obligation. Ambassador McGhee, on the other hand, does not believe this request would significantly burden West Germany's budget or its balance of payments. Although promising to give the matter further study, the Germans have indicated that they are unlikely to agree to the US proposal.

Conclusions

22. Most of these problems have been fussed over periodically without serious damage to US-German relations. Despite the frictions and irritations, the overwhelming majority of Germans--government officials, party leaders, and the press--are still firmly convinced that German security depends on close ties to the US, including the continued presence of a substantial number of American forces in Germany. Given this fundamental dependence, Bonn finds itself compelled to decide in favor of the American alliance, regardless of the differences it may have with US policy or its worries concerning the firmness of American support.

23. Sensitivities have increased on both sides, however, and are aggravated by French actions against NATO. The desire of West Germany to retain its position within a US-led Atlantic alliance rather than accepting French direction has been the major factor in the growing estrangement between Bonn and Paris. This development, in turn, has tended to make many

Germans more aware that they are still not fully accepted by their West European allies and has further heightened their sense of dependence on the US. Under these circumstances, it is perhaps understandable that the Germans appear at times to have an almost neurotic apprehension about US intentions and must periodically seek reassurance that the US will not ignore or overlook German national interests in its policy deliberations.

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